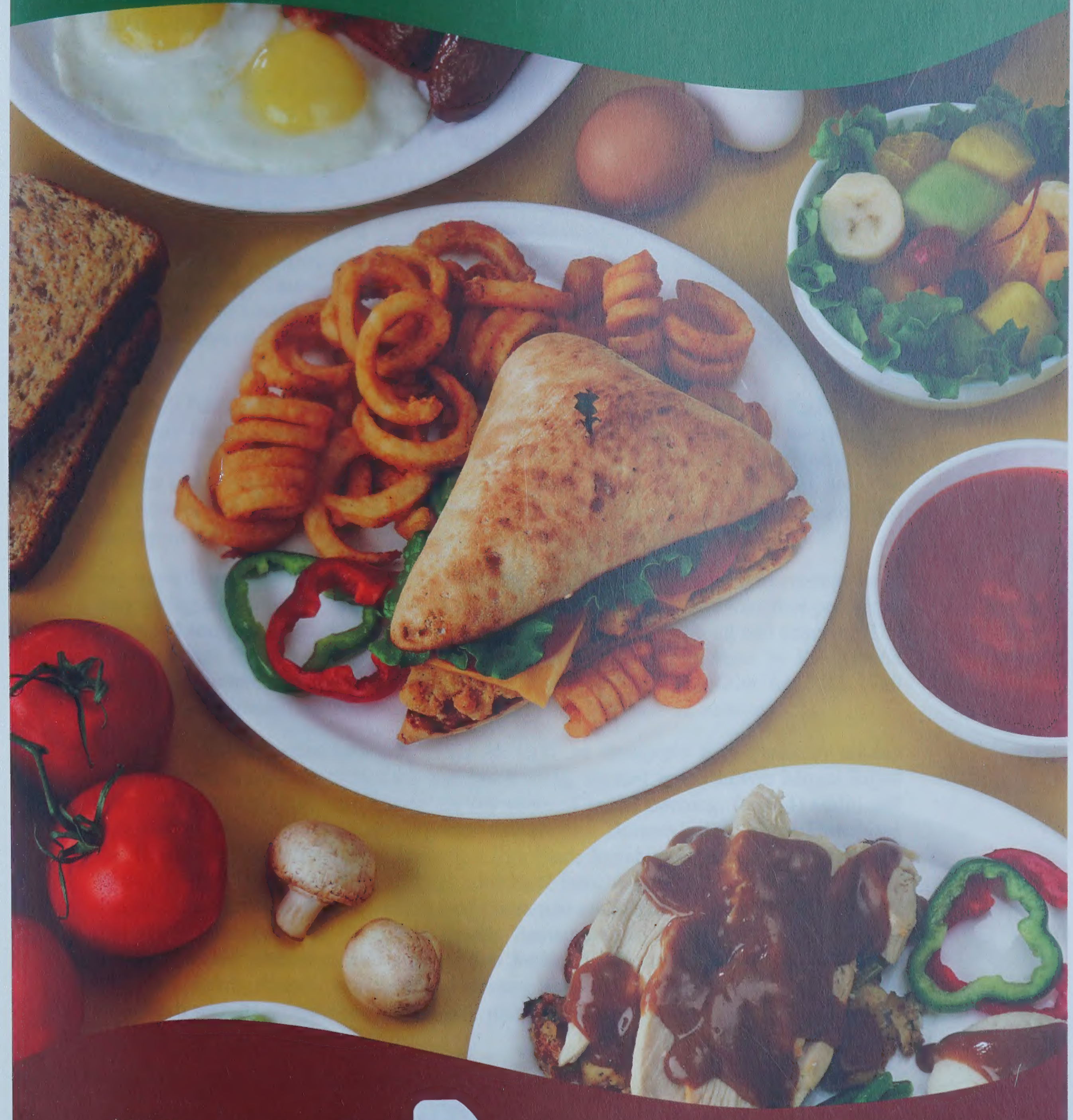
Humpty's Restaurants International Inc.

Humpty's



Annual Report 2007

Corporate Profile

The Company

Humpty's Restaurants International Inc. (HRII or the Company) is one of Canada's leading franchisors of mid-scale full-service family restaurants and one of the nation's few publicly traded franchising companies to focus exclusively on the family segment of the chain restaurant sector.

Corporate Mandate

HRII's corporate mandate is to create enhanced shareholder value by leveraging an inherent operating expertise, superior franchise system and status as a public company to become one of Canada's leading mid-scale family restaurant brand owners and franchisors. To manifest this goal HRII has undertaken an enhanced but managed growth strategy to consolidate the full-service family segment of Canada's foodservices industry.

History

Humpty's Restaurants International Inc. originated October 1990 as Healthy Eating Inc. – a Calgary-based A.S.E. listed Junior Capital Pool (JCP) formed to acquire the shares of Humpty's Egg Place Franchises Inc. The Company is registered as a franchisor in Alberta under the Alberta Franchise Act S.A. 1995 c. F-17.1, and is a reporting issuer to the Alberta and British Columbia Securities Commissions. HRII shares are listed and trading on the Canadian Venture Exchange under stock symbol HMP.

Humpty's Egg Place Franchises Inc. originated in 1982 as a private Alberta-registered franchising company formed to hold all rights, trademarks, assets and franchise privileges attributed and granted to the Humpty's Family Restaurant chain, brand and concept. The company was formed subsequent to being granted franchise privileges by the Alberta Securities Commission in 1982 under the then current Alberta Franchise Act RSA 1980 c. F-17. (See Alberta Franchise Act S.A. 1995 c. F-17.1 for current version.)

Humpty's Family Restaurants originated in 1977 as Humpty's Egg Place an all-day breakfast restaurant created by Don and Jan Koenig, located in the Lower Mount Royal district of Calgary, Alberta. Within six (6) years of initial opening, four (4) additional Egg Places were established as corporate operations. Humpty's Egg Place Franchises Inc. (see above) awarded its first Humpty's Egg Place franchise in 1986 for a outlet to be located in Red Deer, Alberta. Three (3) additional franchises were awarded that year for outlets to be located in the Lethbridge and Edmonton areas of Alberta. In 1988, restaurant operations were renamed Humpty's Family Restaurants to better reflect an emerging focus on family patronage and a menu that included an extensive selection of all-day breakfast, lunch, dinner, appetizer and dessert items. The chain is still most closely associated with its unique breakfast-related menu selections.

President's Message to Shareholders

We are pleased to present to you our Company's operating results for 2007. The positive results reflect our continued efforts to solidify our position in the market place and strengthen our financial status. Our net income of $510,817 that we recorded in fiscal 2007 was our best result since 1998.

Our Operating Results

Total revenue for fiscal 2007 was $12,698,125 which represents a 12.1% increase from fiscal 2006 ($11,325,321). The bulk of this increase was derived from the restaurant, gasoline and convenience store division. Franchise sales and renewals increased by $55,000 while Royalties, Advertising fees and Rebates increased marginally. Operating expenses increased proportionally with the revenue increase (12.0% vs. 12.1%). The ever increasing cost of labour was the main contributor to the huge increase in operating expenses for the restaurant, gasoline and convenience store division. In fiscal 2007 our labour costs increased 12.9% over 2006. Lease settlements and franchise assistance recorded a slight increase of 1.8% from fiscal 2006 and as a result we didn't meet our target of $296,000. Each year in this Message we identify this category because it is the only expense dedicated to troubled locations or rectifying one-time unusual write downs or expenses.

The following items were the write downs that were the major contributors to this expense.

a) The lease for a Thunder Bay ON location that was closed in January/06 was set up as a lease settlement to the end of its term (April/09). In addition to this expense an environmental clean-up of mold that had developed in the unoccupied premises cost $50,000. Total expense was $144,301.
b) Five locations were upgraded with new Franchise operators in 2007. In all situations these locations had lease obligations that hadn't been paid. Total expense was $76,926.
c) A Prince George BC lease that we had been paying for over three years finally came to end in October /07. Expense $32,802.
d) Corporate location in Edmonton AB was sold which resulted in a write down of assets of $42,603.

The net effect of the aforementioned unusual items was a loss of $296,632. Lease settlements and franchise assistance will always be a cost of doing business in our

Company. It is certainly a high priority to continue to reduce this expense. We will see a reduction in fiscal 2008 with expectation that this reduction will be in the 25%-30% range.

Despite the aforementioned expenses, the Company recorded a 16.2% increase of Income from Operations ($291,062 vs. $250,477) Net income improved by a very respectable 303.7%.

Normal Course Issuers Bid
In September 2002 the Company was granted permission to commence a Normal Course Issuers Bid which meant it could repurchase for cancellation up to 759,740 shares of its own capital stock. Annually since 2002 including 2007 the Company continues to renew its Bid to repurchase its capital stock. In 2007 the Company repurchased 95,000 shares bringing the total to date repurchased 543,000 or 3.57% of the original outstanding total. By repurchasing these shares for cancellation the Company continues to enhance shareholders value.

Our Market Position
2008 marks the 31st year of the Humpty's System in Canada. Our market share on December 31, 2007 was forty-nine (49) locations operating and one location closed for renovations (re-opening July/08). The Company owns or manages eight (8) locations with three of these locations being re-franchised in May/08, September/08 and December/08 respectively. Two of these locations are in Edmonton AB and have been a burden to the Company due to a lack of consistent and efficient on site management. With dedicated on-hands Franchisee ownership we anticipate increased sales at these two locations. The third location in Cold Lake AB (December/08) continues to be one of our best operations. In December/07 we sold our Humpty's Classic Café and Humpty's Express and Car Wash in Red Deer AB. Although this was a very high volume location it desperately required on-hands management. In order to maximize the potential for profitability the location had to be Franchised. The sales at this location continue to improve and should exceed $7 M revenue for fiscal 2008.

Looking Forward
We will maintain our objective to continue to improve on what we have. That is the reason we continue to upgrade our locations thus improving sales. We will continue to replace under performing Franchise owners (five changes 2007) with more motivated and progressive entrepreneurs.

Although we continue to focus on improvement we will look at every opportunity to develop new locations, particularly in Ontario and the Atlantic Provinces. We know there will be opportunities however the situation has to be right. As we like to say "it's better to be cautious than careless."

Western Canada still continues to experience an extreme labour shortage. This is not a short term situation. We are making provisions as are our Franchisees to bring in foreign workers. Currently we have twenty-seven (27) foreign employees employed in our Corporate locations and have applications in place for another fourteen (14).

Summary

If we stay focused on profitability growth we will be prepared for expansion opportunities when they present themselves.

We are proud to be associated with a team of dedicated staff and Franchisees who continually contribute an admirable effort to deliver services that exceed our customers expectations. We acknowledge those staff and Franchisees for their continued commitment and dedication to the Humpty's System. We also appreciate your continued support as shareholders of our Company.

Don Koenig
President and Chief Executive Officer

KENWAY
MACK
SLUSARCHUK
STEWART LLP
Chartered Accountants
www.kmss.ca

Humpty's Restaurants International Inc.

Financial Statements

December 31, 2007 and 2006

Auditors' Report

To: The Shareholders of
Humpty's Restaurants International Inc.

We have audited the balance sheets of **Humpty's Restaurants International Inc.** as at **December 31, 2007 and 2006** and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Chartered Accountants

April 11, 2008
Calgary, Alberta

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Humpty's Restaurants International Inc.
Balance Sheets

As at December 31,	2007	2006
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 178,039	$ -
Accounts receivable	520,749	416,176
Inventory	160,616	237,135
Prepaid expenses and deposits	86,930	90,825
Current portion of notes receivable (note 5)	175,437	82,134
	1,121,771	826,270
Notes receivable (note 5)	462,024	107,920
Property and equipment (note 6)	3,273,271	3,688,718
Future income taxes (note 10)	353,700	462,200
	$ 5,210,766	$ 5,085,108
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (note 4)	$ -	$ 256,363
Accounts payable	300,305	259,519
Income taxes payable	182,630	111,028
Note payable (note 12)	300,000	-
Current portion of long-term debt (note 7)	487,417	561,870
Current portion of capital lease obligation (note 8)	30,394	27,070
	1,300,746	1,215,850
Long-term debt (note 7)	2,701,066	3,122,755
Capital lease obligation (note 8)	9,970	40,235
	4,011,782	4,378,840
Shareholders' equity		
Share capital (note 9)	1,069,089	1,076,021
Retained earnings (deficit)	129,895	(369,753)
	1,198,984	706,268
	$ 5,210,766	$ 5,085,108

Approved on behalf of the Board

signed "Don Koenig" Director   *signed "Jan Koenig"* Director

See accompanying notes to the financial statements

Humpty's Restaurants International Inc.

Statements of Income and Retained Earnings

For the years ended December 31,	2007	2006
Revenues		
Restaurant, gasoline and convenience store	$ 9,449,312	$ 8,149,353
Royalties	1,723,745	1,711,280
Advertising participation fees	763,711	752,349
Rebates and other	597,851	592,613
Rental	103,506	114,726
Franchise sales and renewals	60,000	5,000
	12,698,125	11,325,321
Expenses		
Restaurant, gasoline and convenience store	9,123,595	7,738,216
General and administrative	1,304,136	1,322,695
Advertising and promotion	862,722	879,607
Lease settlements and franchise assistance (note 14)	599,821	589,165
Interest on long-term debt	237,352	226,889
Amortization	279,437	318,272
	12,407,063	11,074,844
Income from operations	291,062	250,477
Other income		
Gain on sale of property and equipment	399,856	-
Income before income taxes	690,918	250,477
Income tax (recovery) (note 10)		
Current	71,601	191,744
Future	108,500	(67,800)
	180,101	123,944
Net income	510,817	126,533
Deficit, beginning of year	(369,753)	(497,661)
Deficiency (excess) of share repurchase over stated value	(11,169)	1,375
Retained earnings (deficit), end of year	$ 129,895	$ (369,753)
Basic and diluted income per share	$ 0.035	$ 0.009
Weighted average number of common shares - basic and diluted	14,693,662	14,784,441

See accompanying notes to the financial statements

Humpty's Restaurants International Inc.

Statements of Cash Flows

For the years ended December 31,	2007	2006
Operating activities		
Net income	$ 510,817	$ 126,533
Items not affecting cash		
Losses on lease settlements	84,839	61,296
Amortization	279,437	318,272
Write-off of notes receivable	-	17,250
Future income taxes	108,500	(67,800)
Impairment write-down of restaurant assets	42,603	-
Gain on sale of property and equipment	(399,856)	-
	626,340	455,551
Changes in non-cash working capital items (note 11)	88,228	61,170
	714,568	516,721
Investing activities		
Principal repayment of notes receivable	91,496	94,237
Notes receivable advanced	(538,903)	(78,085)
Proceeds on disposal of property and equipment	934,591	-
Purchases of property and equipment	(441,329)	(767,403)
	45,855	(751,251)
Financing activities		
Proceeds of note payable	300,000	-
Proceeds of long-term debt	-	1,790,651
Repayment of long-term debt	(580,980)	(1,897,050)
Repayment of capital lease obligation	(26,941)	(20,859)
Share repurchase	(18,100)	(11,345)
	(326,021)	(138,603)
Increase (decrease) in cash and cash equivalents	434,402	(373,133)
Cash and cash equivalents (bank indebtedness), beginning of year	(256,363)	116,770
Cash and cash equivalents (bank indebtedness), end of year	$ 178,039	$ (256,363)
Cash and cash equivalents (bank indebtedness) consists of:		
Cash	$ 52,619	$ -
Guaranteed investment certificate	300,000	-
Cheques written in excess of deposits	(74,580)	(156,363)
Bank loan	(100,000)	(100,000)
	$ 178,039	$ (256,363)

Supplementary cash flow information – see note 11

See accompanying notes to the financial statements

1. Nature of operations

Humpty's Restaurants International Inc. (the "Company") is incorporated under the Business Corporations Act of the Province of Alberta and is operator and franchisor of Humpty's Family Restaurants and Humpty's Classic Cafes. At December 31, 2007, the Company had 41 franchise locations and 9 corporate locations.

2. Change in accounting policies

(a) Accounting changes

On January 1, 2007, the Company adopted the revised recommendations of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 1506: Accounting Changes. The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact on the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The adoption of this section has resulted in additional disclosures required in the financial statements (see note 18).

(b) Financial instruments, hedges and comprehensive income

On January 1, 2007 the Company adopted the CICA Handbook Section 3855: Financial Instruments – Recognition and Measurement, 3865: Hedges, 1530: Comprehensive Income, 3861: Financial Instruments – Disclosure and Presentation. The standards require the classification of all financial instruments by category; loans and receivables, held-to maturity investments, available for sale financial assets, held for trading financial assets, or other liabilities. The standards prescribe criteria for the recognition of certain derivative financial instruments. As well, the standards prescribe the measurement bases; either amortized cost or fair value, of the specified classes of financial instruments subsequent to their initial recognition; the timing and recognition of realized and unrealized gains and losses on financial instruments; and disclosures, including a new category of shareholders' equity accumulated other comprehensive income. In accordance with transitional provision in the standards, the accounting policies were adopted on a prospective basis with no restatement of prior period financial statements.

The Company's financial assets and financial liabilities are classified and measured as follows:

- Cash and cash equivalents are classified as held for trading and measured at fair value. Gains and losses related to periodic revaluation are recorded in net income.

- Accounts receivable and notes receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

2. **Change in accounting policies, continued**

(b) **Financial instruments, hedges and comprehensive income, continued**

Accounts payable, notes payable and long-term debt are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

Adoption of the standards did not have a material impact to the measurement basis of the Company's financial assets and financial liabilities. The Company did not recognize any items of other comprehensive income or accumulated other comprehensive income on adoption of the standards or for the year ended December 31, 2007.

3. **Significant accounting policies**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant policies are detailed as follows:

(a) **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. The most significant estimates are for future income taxes, lease settlement accruals, and asset impairment. The calculation of future income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realizability of future tax assets. The calculation of lease settlement accruals includes estimates of future costs, the timing of cash flows to settle the obligation, and interest rates. The calculation of impairment is based on estimates on the recoverability of these assets. Actual results could differ from those estimates.

(b) **Cash equivalents**

The Company considers all investments with maturities of three months or less and demand bank loans that are utilized periodically for day-to-day operations to be cash equivalents.

(c) **Inventory**

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) **Impairment of notes receivable**

Notes receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of principal and interest. The carrying amount of a note receivable classified as impaired is reduced to its estimated fair value.

3. Significant accounting policies, continued

(e) Property and equipment

Property and equipment are recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the property and equipment over their estimated useful lives. The annual amortization rates are as follows:

Buildings	4 %
Furniture and fixtures	20 %
Equipment	20 %
Automotive	35 %

Amortization of leasehold improvements is recorded straight line over the remaining term of the lease.

(f) Impairment of long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds fair value.

(g) Leases

Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is amortized on the same basis as described above. Rental payments under operating leases are expensed as incurred.

(h) Revenue recognition

Restaurant, gasoline and convenience store revenue is recognized daily based on cash reports from each location. Royalties and advertising participation fees are based on retail store sales of the franchises and are recorded as earned when collection is reasonably assured. Rebate revenue is recognized in the period that the related purchases of goods are made. Rental revenue is recognized on the first day of each month. Revenue from franchise sales is recognized when the restaurant opens. Revenue received from franchised store locations not opened at year end is recorded as deferred revenue.

3. Significant accounting policies, continued

(i) Lease settlements and franchise assistance

The Company incurs costs related to assistance for underperforming locations or new locations or to settle leases on store closures. The Company is contingently liable as guarantor under head lease agreements with landlords for many of its franchises. In accordance with CICA EIC-135 "Accounting for Costs Associated with Exit and Disposal Activities", the Company measures costs associated with lease settlements at fair value at the date the Company ceases to use the rights conveyed by the lease.

(j) Per share information

Per share information is calculated using the weighted average number of shares outstanding during the period. The Company uses the treasury stock method of calculating per share amounts whereby any proceeds from the exercise of in-the-money stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

(k) Stock-based compensation

The Company has a stock option plan, which is described in note 9. Stock options issued by the Company are accounted for in using the fair-value based method of accounting. The fair value of options issued to directors, officers, employees, consultants and service providers to the Company is charged to income with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes options pricing model. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. Unvested stock options issued to consultants and service providers are revalued each reporting period. Forfeitures of stock options are accounted for as they occur.

(l) Income taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

4. Cash equivalents (bank indebtedness)

An operating line of credit has been authorized by the bank to a maximum of $100,000 and bears interest at the bank's prime lending rate plus 1.0%; a general security agreement has been pledged as security. $100,000 is outstanding at year end (2006 – $100,000). Included in cash and cash equivalents is a guaranteed investment certificate for $300,000 (2006 – nil) which bears interest at the bank's prime rate less 2.05% and matures on December 9, 2008.

5. Notes receivable

	2007	2006
Notes receivable from franchisees bear interest at a weighted average interest rate of 9.7%, are unsecured and mature at various dates to 2012.	$ 637,461	$ 190,054
Less current portion	175,437	82,134
Due beyond one year	$ 462,024	$ 107,920

Principal repayments for each of the next five years are as follows:

2008	$ 175,437
2009	140,538
2010	127,613
2011	108,925
Thereafter	84,948
	$ 637,461

6. Property and equipment

	2007			2006
	Cost	Accumulated Amortization	Net	Net
Land	$ 879,968	$ -	$ 879,968	$ 879,968
Buildings	2,307,542	856,675	1,450,867	1,517,154
Leasehold improvements	1,138,094	672,162	465,932	712,472
Furniture and fixtures	623,455	486,430	137,025	236,193
Equipment	889,667	567,651	322,016	285,024
Equipment under capital lease	-	-	-	55,230
Automotive	72,509	55,046	17,463	2,677
	$ 5,911,235	$ 2,637,964	$ 3,273,271	$ 3,688,718

7. Long-term debt

	2007	2006
Mortgages with fixed interest rates ranging from 5.3% to 12% or a floating rate of the bank's variable rate plus 1%, maturing from 2008 to 2021.	$ 2,313,295	$ 2,486,758
Loans with floating interest rates ranging from the bank's prime rate plus 1% to 3.5% or a fixed rate of 9.5%, maturing from 2009 to 2011.	273,611	407,264
Notes payable from lease settlements with fixed interest rates ranging from 0% to 15%, maturing from 2007 to 2015 (note 12).	601,577	790,603
	3,188,483	3,684,625
Less current portion	487,417	561,870
Due beyond one year	$ 2,701,066	$ 3,122,755

Included in mortgages payable is $300,000 (2006 – $300,000) due to a company controlled by a director bearing interest at 12%. During 2007 $36,000 (2006 - $36,000) of interest was paid to the same company. Related party transactions are in the normal course of operations and have been measured at the exchange amount established and agreed to by the related parties.

As at December 31, 2007, the Company was in breach of a covenant that required the Company to maintain a current ratio of 1:1 for certain mortgages. The Company has negotiated a waiver on this covenant breach and as such the mortgages have not been reclassified as a current liability.

Principal repayments for each of the next five years are as follows:

2008	$ 487,417
2009	402,696
2010	307,443
2011	260,092
2012	218,388
Thereafter	1,512,447
	$ 3,188,483

Land and building with a net book value of $2,330,835 (2006 – $2,401,161) have been pledged as security for certain of the Company's mortgages payable.

8. Capital lease obligation

	2007	2006
Capital leases with a weighted-average interest rate of 13.5%, maturing from 2008 to 2009.	$ 40,364	$ 67,305
Less current portion	30,394	27,070
Due beyond one year	$ 9,970	$ 40,235

Estimated lease payments are as follows:

2008	$ 36,296
2009	10,404
2010	434
	47,134
Less amount representing interest from 19.8% to 29.2%	6,770
Present value of minimum net lease payments	$ 40,364

9. Share capital

Authorized
- Unlimited number of Class A voting shares
- Unlimited number of first preferred shares, issuable in series
- Unlimited number of second preferred shares, issuable in series

Issued

	2007		2006	
	Issued	Amount	Issued	Amount
Common shares				
Beginning of year	14,746,785	$ 1,076,021	14,813,785	$ 1,088,741
Normal course issuer bid	(95,000)	(6,932)	(67,000)	(12,720)
End of year	14,651,785	$ 1,069,089	14,746,785	$ 1,076,021

During the year, the Company repurchased 95,000 (2006 – 67,000) of its own shares pursuant to a normal course issuer bid, 85,000 (2006 – 32,000) of which were cancelled prior to year end. At December 31, 2007, 10,000 (2006 – 35,000) of these shares were held in treasury. Subsequent to December 31, 2007 these shares were cancelled.

Stock options

Under the Company's stock option plan, common share purchase options may be granted to directors, officers and employees. The Company may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares. The granted common share purchase options are subject to vesting requirements as determined upon granting and are subject to expiry five years following the date granted.

As of December 31, 2007 and 2006, there are no share options outstanding.

10. Income taxes

(a) The components of future income tax balances are as follows:

		2007		2006
Long-term future income tax asset (liability)				
Accrued liabilities for lease settlements	$	92,593	$	105,200
Liability for capital lease		11,907		21,600
Tax basis of property and equipment in excess of carrying amount		235,700		319,600
Cumulative eligible capital available for tax purposes		13,500		15,800
	$	353,700	$	462,200

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 32.12% (2006 – 32.12%) to the income for the years as follows:

		2007	2006
Income for the year before income taxes	$	690,918	250,477
Anticipated income tax expense	$	221,900	80,500
Permanent expense differences		(45,094)	5,500
Future tax related to tax rate change		20,275	18,544
Adjustment related to tax reassessment		-	19,400
Other		(16,980)	-
Provision for income taxes	$	180,101	123,944

11. Supplementary cash flow information

		2007		2006
Changes in non-cash working capital				
Accounts receivable	$	(104,573)	$	42,449
Inventory		76,519		(7,685)
Prepaid expenses and deposits		3,859		(14,469)
Accounts payable		40,786		400
Income taxes payable		71,601		40,475
	$	88,228	$	61,170
Interest paid	$	237,352	$	236,492
Income taxes paid	$	-	$	157,092

12. Acquisitions

On May 1, 2007, the Company acquired a franchise location in Nanton, Alberta and will be running it as a corporate location. The results of the restaurant operations have been included since that date. The Company acquired the assets of the franchisee in exchange for a note payable due on or before May 1, 2008. The full balance of the note payable was repaid subsequent to December 31, 2007. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed.

Assets acquired	
Equipment	$ 130,000
Leasehold improvements	170,000
Consideration – note payable	$ 300,000

On November 1, 2007, the Company acquired a franchise location in Golden, British Columbia. The location was at the end of its franchise agreement and it was decided that the agreement would not be renewed. The results of the restaurant operations have been included since that date. The aggregate purchase price was $27,235. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed.

Assets acquired	
Inventory	$ 11,935
Equipment deposit	10,300
Equipment	5,000
Consideration - cash	$ 27,235

Subsequent to the acquisition date the equipment deposit and equipment were written-off.

On November 1, 2006, the Company acquired a franchise location in trouble in Edmonton, Alberta. The results of the restaurant operations have been included since that date. The Company acquired the assets of the franchisee in exchange for assuming debt of the franchisee. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed.

Assets acquired	
Equipment	$ 72,411
Leasehold improvements	108,617
	181,028
Liabilities assumed	
Long-term debt	$ (181,028)
Consideration	$ -

13. Exit costs

Included in lease settlements and franchise assistance are charges for exit costs, which include future obligations relating to closed corporate and franchise stores. In accordance with CICA EIC-135, discounted liabilities for future lease costs and the fair value of related subleases of restaurants closed after March 1, 2003, are recorded when the restaurant is closed (effective on the cease-use date). All other costs related to restaurant closures, including property taxes and maintenance costs are expensed as incurred.

The estimated liability to the Company for exit costs incurred is included as notes payable in long-term debt (note 7). Reconciliation of the balance as at December 31, 2007, follows:

	2007	2006
Notes payable beginning balance	$ 790,603	$ 1,011,791
Provision for restaurants closed	84,839	117,648
Payments, net	(297,570)	(376,322)
Accretion (included in interest expense)	23,705	37,486
	$ 601,577	$ 790,603

14. Lease settlements and franchise assistance

Lease settlements and franchise assistance is comprised of:

	2007	2006
Restaurant operations of franchises temporarily under corporate management		
Revenue	$ (3,133,997)	$ (2,529,042)
Expenses	3,399,096	2,705,102
Losses on head leases	292,119	413,105
Impairment write-down of restaurant assets	42,603	-
	$ 599,821	$ 589,165

15. Contractual obligations

The Company's total obligations, under various property and equipment lease agreements for the next five years are as follows:

	Gross	Subleases	Net
2008	$ 3,593,571	$ 2,938,162	$ 655,409
2009	2,973,133	2,585,865	387,268
2010	2,543,348	2,247,948	295,400
2011	1,832,861	1,637,461	195,400
2012	1,483,446	1,165,696	317,750
	$ 12,426,359	$ 10,575,132	$ 1,851,227

16. Financial instruments

(a) Credit risk

Credit risk arises from the potential that a franchise will fail to perform its obligations. In order to reduce its credit risk, the Company monitors credit performance and conducts regular reviews of the franchise's operations. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific franchises, historical trends and other information. Under the terms of the franchise agreement, the Company has the right to take over the operations of the franchise in the event a franchise fails to perform its obligations.

(b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable approximates its fair value due to the immediate or short-term maturity of these instruments.

The carrying value of notes receivable approximates fair value as the interest rates are consistent with the current rates offered for debt with similar terms.

The carrying value of the note payable and long-term debt, except for non-interest bearing notes payable, approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms. The fair value of the non-interest bearing notes payable included in long-term debt at December 31, 2007, is $498,843 (2006 - $709,935), which is based on discounted cash flows using current market interest rates.

(c) Interest rate risk

The Company is exposed to interest rate risk on its floating rate borrowings, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

17. Additional franchise information

Number of franchise locations

	2007	2006
Beginning of year	41	45
New franchises sold	2	-
Franchises resold by franchisor	-	-
Franchises acquired by franchisor	(2)	(1)
Franchises closed	-	(3)
	41	41
Number of franchisor owned locations	9	9
Total locations	50	50

18. Future accounting changes

(a) Capital disclosures

On January 1, 2008, the Company will be required to adopt the CICA Handbook Section - 1535 – Capital disclosures. Under the requirements of new standard, the Company will disclose information about its objectives, policies and processes for managing capital, quantitative information about what the Company regards as capital and information regarding its compliance with any externally imposed capital requirements and the consequences of any non-compliance. The Company anticipates that the main impact to its financial statements will be in terms of additional disclosures required.

(b) Going concern

On January 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its financial statements arising from the adoption of the accounting pronouncement.

(c) Inventories

On January 1, 2008, the Company will be required to adopt the CICA Handbook Section 3031 – Inventories. The new Section is a replacement of the CICA Handbook Section 3030. Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value, cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, consistent use of either first-in, first out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The Company does not anticipate any material impact to its financial statements arising from the adoption of the accounting pronouncement.

(d) Convergence with International Financial Reporting Standards

A decision of the CICA Accounting Standards Board (the "AcSB") will require the Company to report under International Financial Reporting Standards on January 1, 2011, though specific requirements of the transition continue to be under review by the AcSB. The Company is monitoring the requirements but is unable to assess the impact on the financial statements.

18. Future accounting changes, continued

(e) Goodwill and intangible assets

Effective January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064 "Goodwill and Intangible Assets". The new Section is a replacement of the CICA Handbook Section 3062 and 3450. The new Section does not substantively change the requirement pertaining to goodwill. The change in requirements pertaining to intangible assets primarily relate to recognition criteria for purchased and internally developed assets. The recognition criteria include that the asset is identifiable separate from goodwill, the entity has the power to obtain, and it is probable that it will receive, the future economic benefits flowing from it and the cost of the asset can be measured reliably. The Company is currently reviewing the new standard but is unable to assess the impact on its financial statements.

19. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

April 25, 2008

Management's Discussion and Analysis

The following discussion of the financial position and results of operations should be read in conjunction with the audited financial statements and related notes attached thereto.

Our Business

The Company is one of Canada's leading franchisors of mid-scale full-service family restaurants. It is a franchisor and operator of the Humpty's Family Restaurants chain ("Humpty's").

The Humpty's chain is comprised of full-service family restaurants featuring a full range of breakfast, lunch and dinner items available throughout the operating day. The concept's menu is mid-scale family distinguished by an extensive and unique breakfast-related selection featuring several items original to the chain.

At present, the Company's focus is to grow consistently as a mature and stable organization through restaurant expansion. The Company has had some difficulty over the past few years in its expansions and as such has had to re-evaluate its expansion strategies. These difficulties have brought to light the importance of finding quality locations and qualified franchise owners. As always, a significant amount of emphasis is placed on management support, staff training and local marketing initiatives.

Results of Operations

Analysis of Income for the Year

Revenues

Total revenue for fiscal 2007 was $12,698,125 which represents a 12.1% increase from fiscal 2006 ($11,325,321).

The Company continues to operate corporate locations to allow the monitoring of consumer trends and competition, the testing of products and menus, and the refinement of the Company's operations model. Restaurant sales were $9,449,312 in 2007, an increase of 16.0% from fiscal 2006 ($8,149,353).

Royalty fee revenue for fiscal 2007 was $1,723,745 an increase of 0.7% from fiscal 2006 (1,711,280).

Advertising participation fees used to fund corporate advertising campaigns were $763,711, up 1.5% over than those of 2006. Rebates and other income totalled $597,851 up 0.9% from those posted in the prior year.

Rental revenue is generated from rental properties owned by the Company. Rental revenue decreased by 9.78% from the prior year to $103,506.

Franchise sales were $60,000 and $5,000 in 2007 and 2006 respectively.

Expenses

Corporate restaurant operation costs increased by $1,385,379 or 17.90% over the previous year, to total $9,123,595 for fiscal 2007.

Analysis of restaurant operation costs	**2007**	**2006**
Food Purchases	1,843,269	1,735,233
Gas Purchases	3,876,616	3,359,154
Salaries and employee benefits	1,768,765	1,463,556
Rents	341,486	295,351
Telephone and utilities	190,295	212,872
Repairs and maintenance equipment and building	190,059	141,650
Advertising Restaurants	315,885	247,131
Miscellaneous	597,220	283,269
Total restaurant, gasoline and convenience store	9,123,595	7,738,216

General and administration expenses totalled $1,304,136 in fiscal 2007, down $18,559 from $1,322,695 posted the prior year. This represents the costs of operating the public company, managing the business and franchise support.

Analysis of General and administrative costs	**2007**	**2006**
Salaries and employee benefits	780,336	760,203
Professional fees	129,903	130,721
Franchise support	105,558	116,719
Office and miscellaneous	288,339	315,052
Total general and administrative	1,304,136	1,322,695

Advertising and promotion was $862,722, a decrease of 1.9% from 2006 levels. The cost of advertising was in excess of the advertising participation fees of $763,711 generated from the franchise locations. Management recognizes the key importance of name recognition and as such has continued its efforts in producing effective advertising campaigns.

Analysis of advertising and promotion costs	2007	2006
Advertising national	847,463	863,477
Miscellaneous	15,259	16,130
Total advertising and promotion	862,722	879,607

Lease settlements and franchise assistance represents settlements resulting from store closures and assistance to stores becoming established or re-franchised. Lease settlements and franchise assistance increased by $10,656 over fiscal 2006, ($599,821 in 2007 vs. $589,165 in 2006).

In 2007, the Company did not lose or gain any franchise locations, however two corporate locations were sold and two were bought back as corporate, ending the year with 50 locations. (see below)

The Company sold its Red Deer, AB location, Restaurant, C. Store and Gas Bar for $800,000. The Company received $400,000 in cash and is carrying an additional $400,000 in the way of a loan.

The Company sold its Sherwood Park, AB location. The Company received $92,500 in cash and the new franchisees assumed the capital lease in the amount of $67,616.

The Company re-purchased the Golden, BC location's assets and inventory for $27,235. The location was at the end of it's franchise agreement and it was decided that the agreement would not be renewed. It is the Company's intention to renovate and re-franchise this location sometime in 2008.

The Company re-purchased the Nanton AB location for $300,000 in way of a note payable due on or before May 1, 2008. Subsequent to year end the Company paid out the $300,000 note on April 16, 2008.

Although lease settlements and franchise assistance will always be a part of doing business in our Company these costs should be greatly reduced in the future years.

Interest on long-term debt totalled $237,352, which was an increase of $10,463 from 2006 reflecting continued payments on mortgages and loans throughout 2007.

Financial Position and Liquidity

The Company had a stated working capital ratio of 0.86 to 1 at December 31, 2007, up from 0.68 to 1 at December 31, 2006. The debt to equity ratio decreased to 3.35 to 1 from 6.20 to 1 over the same period with available funds being used primarily to repay long-term debt.

EBITDA improved from $795,638 in 2006 to $1,207,707 in 2007.

Risks and Uncertainty

The restaurant and franchise industry is very competitive. Not only are quality locations at a premium, so is the availability of qualified franchisees.

Furthermore, expansion into geographical areas that lack brand recognition for the Humpty's chain creates uncertainty with regards to customer acceptance. The Company researches and evaluates, using strict selection criteria, for each proposed franchise to minimize this risk.

The Company has guaranteed leases for a number of Humpty's stores. If franchises, to which the Company is the lease guarantor, are unable to pay their lease obligations, the obligations become that of the Company. Should a lease obligation fall to the Company, it will either negotiate a settlement to end the lease, operate it corporately or re-franchise the store.

Financial instruments

New Standards in 2007

Effective January 1, 2007 the Company adopted the following new CICA accounting standards Financial Instruments – Recognition and Measurement"(section 3855); "Financial Instruments – Disclosure and Presentation" (section 3861); "Comprehensive Income" (section 1530); and "Hedges" (section 3865). These standards require all financial instruments other than held–to-maturity investments, loans and accounts receivables, and non-speculative financial instruments to be included on the Corporations balance sheet at their fair value. Held-to-maturity investments, loans and receivables, and non-speculative financial instruments would be measured at their amortized cost. The standards create a new statement of comprehensive income that includes changes in the fair value of certain financial instruments, specifically designated as hedges. The Corporation does not have any financial instruments designated as hedges, and as such does not have a statement of comprehensive income. As the corporation does not have any financial instruments other than those to be carried at amortized cost, the adoption of these standards had no financial statement impact on the Corporation.

For financial assets and financial liabilities that are not classified as held for trading, the transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability are added to the fair value initially recognized for that financial instrument and amortized to earnings over the life of the financial instrument.

Section 3855 requires that an asset or liability be recognized for embedded derivatives by separating them from their host contracts and measuring them at fair values. The Corporation's evaluation of its contracts pursuant to this standard did not result in the identification of any embedded derivatives.

The Company is exposed to the following risks in respect of certain of the financial instruments held:

a) Credit risk

Credit risk arises from the potential that a franchise will fail to perform its obligations. In order to reduce its credit risk, the Company monitors credit performance and conducts regular reviews of the franchisee's operations. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific franchises, historical trends and other information. Under the terms of the franchise agreement, the Company has the right to take over the operations of the franchise in the event a franchise fails to perform its obligations.

b) Fair value

The Company's carrying value of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The carrying value of notes receivable approximates fair value as the interest rates are consistent with the current rates offered for debt with similar terms.

The carrying value of the long-term debt, except for non-interest bearing notes payable, approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms. The fair value of notes payable at December 31, 2007, is $508,773 (2006 - $709,935), which is based on discounted cash flows using current market interest rates.

c) Interest rate risk

The Company is exposed to interest rate risk on its floating rate borrowings, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. The most significant estimates are for future income taxes, lease settlement accruals, and asset impairment. The calculation of future income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realizability of future tax assets. The calculation of lease settlement accruals includes estimates of future costs, the timing of cash flows to settle the obligation, and interest rates. The calculation of

impairment is based on estimates on the recoverability of these assets. Actual results could differ from those estimates.

Subsequent Events

Subsequent to the end of the year, the Company sold a location in Edmonton for $30,000. At year end the Company took a write-down of $42,603 on the assets of this location, therefore there will be no gain or loss recorded in 2008.

Subsequent to the end of the year, on April 16, 2008 the Company paid the $300,000 note payable on the Nanton AB location with the GIC that had been purchased in December 2007.

Outlook

The Company intends to focus on improving what it has by replacing under performing franchise owners with more motivated and progressive entrepreneurs, while continuing to ensure profitability through support of its core operations. It will cautiously look at every opportunity to develop new locations particularly in Ontario and the Atlantic provinces.

Supplementary Information

Related Party Transactions

Included in mortgages payable is $300,000 (2006 – $300,000) due to a company controlled by a director bearing interest at 12%. During 2007 $36,000 (2006 - $36,000) of interest was paid to the same company. Related party transactions are in the normal course of operations and have been measured at the exchange amount established and agreed to by the related parties.

Share capital

Authorized
- Unlimited number of Class A voting shares
- Unlimited number of first preferred shares, issuable in series
- Unlimited number of second preferred shares, issuable in series

Issued

	2007		2006	
	Issued	Amount	Issued	Amount
Common shares				
Beginning of year	14,746,785	$ 1,076,021	14,813,785	$ 1,088,741
Shares repurchased	(95,000)	(6,932)	(67,000)	(12,720)
End of year	14,651,785	$ 1,069,089	14,746,785	$ 1,076,021

During the year, the Company repurchased 95,000 (2006 – 67,000) of its own shares pursuant to a normal course issuer bid, 85,000 (2006 – 32,000) of which were cancelled prior to year-end. At December 31, 2007, 10,000 (2006 – 35,000) of these shares were held in treasury. Subsequent to December 31, 2007 these shares were cancelled.

Stock options

Under the Company's stock option plan, common share purchase options may be granted to directors, officers and employees. The Company may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares. The granted common share purchase options are subject to vesting requirements as determined upon granting and are subject to expiry five years following the date granted.

As of December 31, 2007, there are no share options outstanding.

Normal Course Issuers Bid

In September 2002 the Company was granted permission to commence a Normal Course Issuers Bid which meant it could repurchase for cancellation up to 738,189 shares of its own capital stock. In September 2003, November 2004, November 2005, December 2006 and November 2007 the Company renewed its Bid to repurchase its capital stock. Since 2002 the Company has repurchased and cancelled 543,000 of its own shares. Since the end of fiscal 2007 the Company has not repurchased any additional shares. By purchasing these shares for cancellation the Company is enhancing shareholder value.

Disclosure Controls and Procedures

The Company has established and maintains disclosure controls and procedures. The CEO and CFO of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007 and have concluded that material information relating to the Company and its subsidiaries would be made known to them by others within those entities. There were no changes to the Company's internal controls over the financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting in 2007.

Performance at a Glance - Quarterly
Last 8 Quarters

	March 2007	June 2007	September 2007	December 2007	YTD
Total Revenue (000s)	$2,974	$3,442	$3,676	$2,606	$12,698
Total Assets (000s)	$5,053	$5,321	$5,289	$5,211	$5,211
Total Long-term liabilities (000s)	$3,117	$3,001	$2,869	$2,711	$2,711
EBITDA (000s)	$263	$314	$251	$370	$1,208
Net income (loss) (000s)	$101	$126	$92	$192	$511
Shares Outstanding	14,717,785	14,691,785	14,661,785	14,651,785	14,651,785
Earnings (loss) per share, fully diluted	$.007	$.009	$.006	$.013	$.035
Working Capital (000s)	(259)	(536)	(494)	(179)	(179)
Market price at year end	$.20	$.19	$.18	$.21	$.21

	March 2006	June 2006	September 2006	December 2006	YTD
Total Revenue (000s)	$2,552	$3,064	$3,495	$2,215	$11,325
Total Assets (000s)	$4,705	$4,648	$4,964	$5,085	$5,085
Total Long-term liabilities (000s)	$3,036	$2,963	$3,087	$3,162	$3,162
EBITDA (000s)	$207	$336	$289	($37)	$796
Net income (loss) (000s)	$57	$143	$116	($189)	$126
Shares Outstanding	14,803,785	14,783,785	14,776,785	14,784,441	14,784,441
Earnings (loss) per share, fully diluted	$.004	$.010	$.008	$.013	$.009
Working Capital (000s)	(141)	(48)	(60)	(390)	(390)
Market price at year end	$.18	$.17	$.20	$.19	$.19

Performance at a Glance
5 Year Summary

	2007	2006	2005	2004	2003
Total Revenue	$12,698	$11,325	$8,439	$8,019	$8,786
Total Assets	$5,211	$5,035	$4,558	$7,528	$7,771
Total Long-term liabilities	$2,711	$3,162	$3,059	$4,899	$4,969
Franchises	41	41	45	45	47
Franchisor-owned locations	9	9	8	6	6
Franchise revenue (000s)	$3,249	$3,176	$3,276	$3,219	$3,411
Increase (decrease)	2.3%	(3.0%)	1.7%	(5.6%)	(8.3%)
Franchise revenue per franchise (000s)	$79	$77	$73	$72	$73
EBITDA (000s)	$1,208	$796	$790	$803	$587
Net income (loss) (000s)	$511	$126	($374)	$20	($246)
Earnings (loss) per share, fully diluted	$.035	$.009	($.025)	$.001	($.016)
Working capital (000s)	(179)	(390)	55	(713)	($961)
Market price at year end	$.21	$.19	$.19	$.16	$.15

Additional information about Humpty's Restaurants International Inc. is filed with the Canadian Securities Commissions, including periodic quarterly reports. Information is also available online at www.Sedar.com.

Humpty's Restaurants International Inc.
Corporate Information

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Website:	www.humptys.com

Auditors

Kenway, Mack, Slusarchuk, Stewart
Chartered Accounts
Calgary, Alberta

Legal Council

Corporate Matters:
McLeod & Company
Barristers & Solicitors
Calgary, Alberta

Franchise Matters:
Yuzda Schuster & Bresky
Barristers & Solicitors
Calgary, Alberta

Transfer Agent

Computer Share
Trust Company of Canada
Suite 600 Western Gas Tower
530-8th Avenue
Calgary, Alberta T2P 3S8

Corporate Banking

Bank of Montreal
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Fiscal Year End: December 31st

Board of Directors

Don Koenig*	Chairman President, CEO Humpty's Restaurants Int'l Inc. Calgary, Alberta
Janice Koenig	Vice-President, CFO Humpty's Restaurants Int'l Inc. Calgary, Alberta
Bert Messier*	President BECA International Inc. Calgary, Alberta
Carolyn Messier	Vice-President BECA International Inc. Calgary, Alberta
Albert Jakubec*	Private Investor Calgary, Alberta

*Audit Committee Members

Officers and Executive Management

Don Koenig	President, CEO
Janice Koenig	Vice-President, CFO
Tom Scappatura	Corporate Controller

Annual General Meeting

Thursday, June 26th, 2008
Commencing at 10:00 A.M. @
Humpty's Restaurants International Inc.
2505 Macleod Trail South
Calgary, Alberta

Stock Exchange

Exchange: TSX
Trading Symbol: HMP